

The Michigan New Markets Small Business Incentive

- **Objective** - Economic Stimulus for Rural & Emerging Urban Markets:
 - The Michigan New Markets Small Business Incentive will make the state more attractive to highly qualified federal New Markets Tax Credit program investors.
 - The Michigan program will drive hundreds of millions of dollars of capital into small businesses in Michigan.
 - Michigan will get a larger share of federal New Markets investments.
 - The program will drive capital investment, which will remain in place for years to come, into small businesses in low-income and distressed communities throughout the state.
- **Simplicity** - The Michigan program follows the federal model and uses a financing structure familiar to investors. The federal tax credit is approx. 5.5% for seven years for investments in community development entities. Those entities, regulated by the U.S. Treasury, make equity investments and loans to businesses in low-income communities. The state program uses a similar approach, but with no cost to the state in the first two years after an investment.
- **Leverage** - The state incentive will leverage federal credits and private capital:
 - It will make Michigan more attractive for investments than many other states, thereby encouraging millions of dollars to be invested in Michigan.
 - The incentive will leverage the federal program and be a magnet for national dollars to be invested in new or existing businesses seeking to expand, leading to greater job creation..
 - By delaying the use of tax credits for two years after investment, the early risk is borne solely by private sector investors.
- **"But for"** - Investments can only be made in businesses that are ineligible for traditional financing. Targeted communities must have a median income of less than 80% of the state average income or a 20% poverty rate.
- **Impact** - This incremental incentive program could attract hundreds of millions of dollars of capital to rural and emerging urban areas. Follow-on investment capital of two to three times the original investment can be expected.
- **Proven Concept** - The federal NMTC program, enacted by Congress in 2000, and extended in 2006, authorizes up to \$19.5B of investment in low-income areas nationwide. With about \$9B invested, about \$10.5B remains. Another \$3.5B reauthorization bill is pending before Congress. Four other states have enacted legislation and at least ten more are considering bills.
- **Safeguards** - Several features are in place to protect the state's investment and keep the money invested in the targeted communities:
 - Credits will only be available to those entities that have secured federal credits through a thorough vetting process.
 - Michigan will benefit from federal regulation and auditing of the program.
 - The bill has a seven-year credit recapture provision for moving the business or the investment capital out of the low-income community.